THE Demand and Price SITUATION

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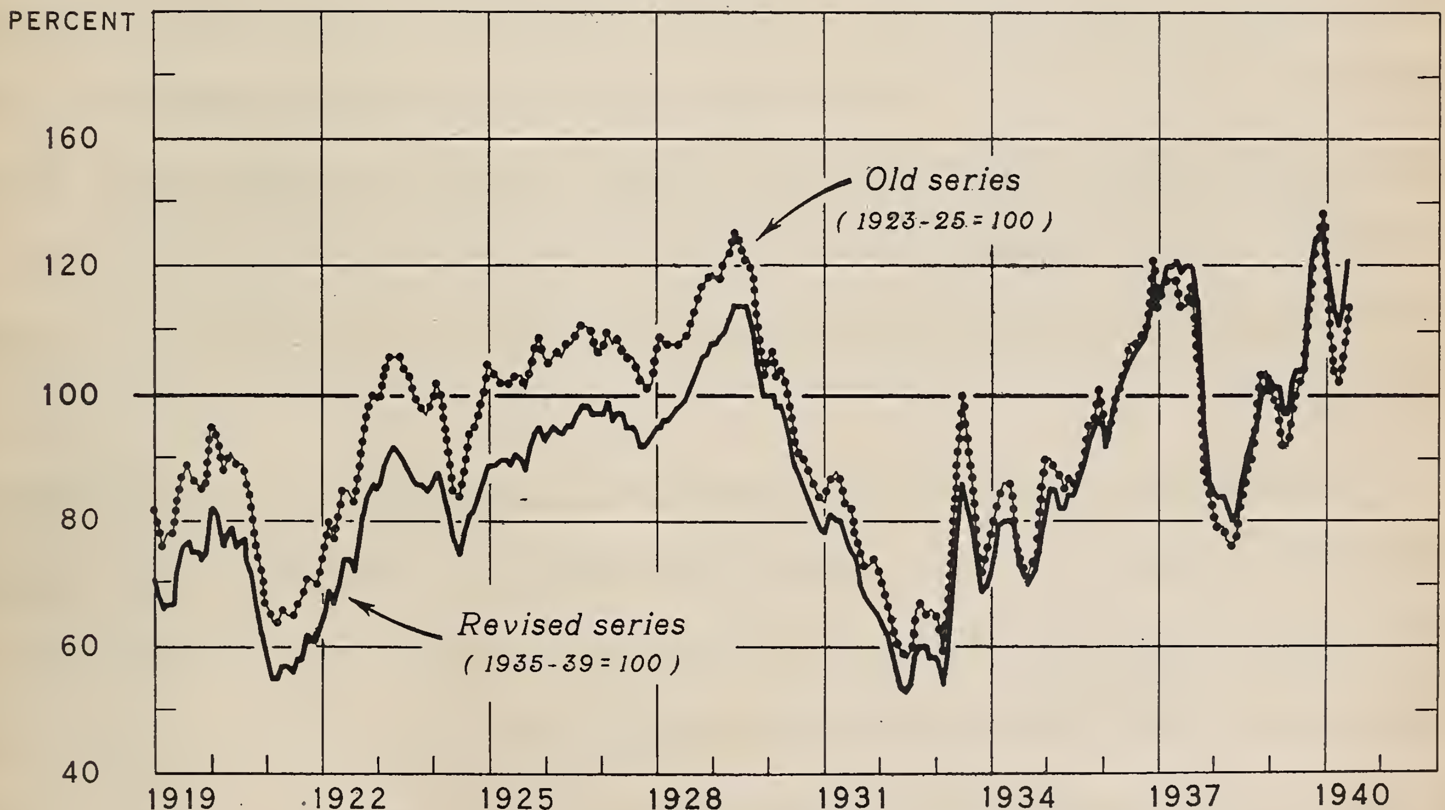
—IN THIS ISSUE: THE NEW FEDERAL RESERVE INDEX OF INDUSTRIAL PRODUCTION, BY P. H. BOLLINGER

INDUSTRIAL PRODUCTION IN THE UNITED STATES, INDEX NUMBERS, 1919-40

(ADJUSTED FOR SEASONAL VARIATION)



DATA FROM BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

U. S. DEPARTMENT OF AGRICULTURE NEG. 38552 BUREAU OF AGRICULTURAL ECONOMICS

The new Federal Reserve index numbers of industrial production give direct representation to several industries which were not included in the old series. Some of these industries have shown marked growth in recent years.

The new series is an improved measure of productive activity in manufacturing and mining, and differs from the old in two important respects: (1) Long-time growth is greater according to the new series than according to the old. For instance, as measured by the new index numbers, industrial production in July 1940 was 10 percent above the 1929 average, whereas according to the old series it was about 2 percent below. (2) Short-term fluctuations, such as the declines in early 1939 and early 1940, are considerably smaller according to the new series than to the old.

SUMMARY

Economic factors affecting domestic consumer demand for farm products continued to improve during July. Industrial production held at the higher level attained in June, and there was further substantial improvement in industrial employment and payrolls. Barring an early end to the war in Europe, domestic business conditions which affect consumer demand for farm products probably will be maintained around recent levels during the next several months.

Any decline in domestic industrial activity and industrial workers' income which might follow an early end to the war in Europe would depend in large measure on the effect that the change in conditions would have on inventory policies. If the attendant uncertainty caused businessmen generally to postpone and cancel orders, a temporary drop of sharp proportions might ensue. The actual loss of export business would be a relatively minor matter, since many British orders for military supplies would be taken over for our own defense program.

Continental European markets which in recent years have taken about one-third of our exports of farm products are now closed; and the United Kingdom, which normally has accounted for an additional third, is restricting imports to urgent needs and is obtaining the maximum possible portion from Empire sources. At least as long as the war in Europe continues, export sales of our principal surplus farm commodities (cotton, tobacco, pork products, and wheat) will be in very limited amounts. Among the items which may fare somewhat better are canned and dried food products, which are well adapted to military use.

Wholesale commodity prices drifted downward last month, but with continuation of the war in Europe there is little likelihood that any severe weakness will develop. On the basis of the Bureau of Labor Statistics daily index,

over three-fourths of the price advance which followed the outbreak of war in Europe has now been lost. Prospects appear favorable for moderate price advances for some farm products which are largely consumed domestically, and later for nonfarm commodities for which domestic defense needs will be added to expanding requirements for normal uses.

Farm income increased by more than is usual for the season in July, owing to a substantial gain in grain movement and somewhat better prices for livestock and dairy products. A further rise in income of approximately seasonal proportions is expected in August.

- August 16, 1940

The situation by commodities is as follows:

Wheat: With the turn of events in Europe in May, wheat prices in the United States became largely independent of the European situation. The dominant price influence is now the loan program. The price decline toward the new crop basis appears to be about complete, with domestic prices slightly lower than a month ago. Prices continue slightly higher than a year ago and considerably higher than export parity.

Cotton: Domestic spot prices declined about 2/5 cent from mid-July to mid-August. The outlook for domestic consumption continues unusually favorable with the 1940-41 season expected to exceed the near-record high consumption of the past season. Export prospects on the other hand continue exceptionally unfavorable. In Great Britain, Japan, and China, the most important markets now open to American cotton, mill activity has recently declined considerably.

Feed grains: Changes in crop prospects during July reduced the prospective 1940-41 supply of feed grains from 116 to 113 million tons compared with the record supply of 118 million tons last year. The supply per animal, after allowing for some decrease in livestock numbers, would be about the same as last year's supply, but much larger than the 1928-32 average. After excluding corn sealed or held by the Government, however, the supply per animal would be much smaller than that of last year and slightly below average.

Hogs: Prices of hogs have held most of the sharp advance of late June and July, and in early August were higher than a year earlier. Hog marketings were reduced sharply in July, but a

seasonal increase is expected during the next few months. In view of the smaller pig crop in 1940 than in 1939, the volume of hogs marketed in the 1940-41 marketing year is expected to be smaller than in 1939-40. This decrease in marketings along with improved consumer demand, will result in higher hog prices in 1940-41 than in 1939-40.

Beef cattle: Marketings of grain-fed cattle are expected to continue large during the remainder of 1940, but they probably will be no larger than a year earlier. The number of cattle on feed in the Corn Belt on August 1 was 3 percent less than the number on August 1 last year. Prices of nearly all classes and grades of cattle declined in July, with the most pronounced weakness in prices of the lower grades of slaughter cattle. Marketings of cattle for slaughter in July were about 10 percent larger than in June.

Lambs: Marketings of lambs for slaughter during the remainder of 1940 may be larger than a year earlier. The 1940 lamb crop was 3 percent larger than that of 1939 and was the largest on record. Prices of lambs declined sharply in July, partly as a result of a seasonal increase in marketings and partly because of high temperatures in important lamb-consuming areas.

Wool: Wool prices at Boston weakened in July, but the June advance in prices which had accompanied increased mill buying of wool to fill Government contracts was not entirely lost. The outlook for domestic mill consumption of wool continues favorable as a result of the defense program and improvement in consumer incomes in this country. But favorable factors in the domestic situation are largely offset at present by uncertainty as to future developments in foreign markets.

Butter: Although butter prices have risen earlier than is usual this summer, they are expected to continue to rise seasonally during the remainder of the year and to average higher than during the corresponding period of 1939. The principal reasons for expecting higher average prices for the remainder of 1940 than in 1939 are the relatively small storage stocks and prospects of a fairly high level of business activity. Production of creamery butter was at a new high in June, but has since declined (as a consequence of unfavorable weather conditions in the North Central States) to a level in early August somewhat under that of a year earlier.

Poultry and eggs: Slightly smaller supplies of eggs in the United States are indicated for the last half of 1940 as compared with the last half of 1939. Supplies of chicken meat (including fowl) may be about 5 percent smaller. As a result, prices of chickens and eggs may tend to rise relative to prices a year earlier. Turkey production in 1940 is indicated to be smaller than in 1939.

Oilseeds, fats, and oils: Although prices of most fats and oils showed little change in July, flaxseed and cottonseed prices declined as new crop marketing began. The flaxseed crop this year is indicated to be the largest since 1924. The cottonseed crop probably will be smaller than a year earlier and below average; but record peanut and soybean crops are in prospect. Large supplies of fats and oils in the United States and other primary producing countries in 1940-41 are likely to offset the effect on prices of improvement in domestic demand, and major price gains are not anticipated unless continental European markets are reopened to world trade.

Fruit: Market prices of most fruits declined seasonally during July, but in early August averaged slightly higher than a year earlier. Total supplies for the 1940 marketing season probably will be somewhat smaller than a year earlier.

Truck crops and potatoes: Potato marketings have been heavy during recent weeks, and have resulted in lower prices than a year earlier. Late crop supplies, however, are expected to be only moderate or about the same as in 1939. Supplies of truck crops for immediate marketing are about the same as a year earlier, but because of improved consumer buying power market prices in early August averaged somewhat higher than in the corresponding period of 1939.

Rice: A total domestic rice supply a little larger than the record 1939-40 supply was indicated by August 1 conditions. The average price of rice received by farmers on July 15, nevertheless, was 16 cents per bushel higher than a year earlier. Extent of recent storm damage is not yet definitely known.

DOMESTIC DEMAND

Conditions affecting the domestic demand for farm products continued to improve in July. Weekly indexes pointed to no definite upward or downward trend in industrial production during the month, but apparently there was further substantial improvement in industrial employment and payrolls. Though additional industrial orders are being placed with considerably more caution than in June, order backlogs are high for steel, electrical equipment, and for numerous other products, especially those in demand by England and for filling domestic defense needs. Barring an early end to the war in Europe, domestic business conditions which affect the demand for farm products probably will be maintained around the recently improved levels during the next few months.

The opposing influences making for increased industrial operations on the one hand and for increasing caution on the other, appear at present to be in close balance. A large volume of orders on producers' books and anticipation of increased defense orders ahead tend to keep industry operating at a high rate. But ample inventories, failure of commodity prices to show inflationary

signs, uncertainties concerning the European War, slowness of operation on defense orders to develop, and pending tax legislation make for increasing caution. Under the balancing tendency of these conditions, industrial production, according to the new Federal Reserve index, is just about holding the gains recently made.

In appraising the potential effects on business conditions of the national defense program an analysis of the probable rate of spending is needed. Defense appropriations, authorizations, and pending requests total 10,040 million dollars (or 14,702 million if the entire estimated cost of a two-ocean navy to be built during the next 6 years is included). But difficulties involved in launching a program of this size probably will hold expenditures during the present fiscal year (July 1940-June 1941) to around 4.5 billion dollars, and possibly less. This may be compared with defense expenditures for the 1940 fiscal year of 1,559 million dollars.

Offsetting in part the effect on business of the probable gain in defense expenditures will be an expected increase in tax collections of approximately 900 million dollars (exclusive of collections which may arise from pending excess profits tax legislation) and reduced expenditures other than for defense of approximately a billion dollars (exclusive of additional Works Progress Administration funds which may later be appropriated).

Considering the Federal budget as a whole it appears that the excess of expenditures over receipts may increase by perhaps one and a half billion dollars in the current fiscal year. The net contribution of the Federal Government to national buying power declined during the first half of 1940 to an estimated 218 million dollars in June. It is again rising and may reach 500 million dollars by next December. The maximum rate of defense expenditures may not be reached for a year or longer.

The above analysis is, of course, highly tentative and may need substantial revision as defense and tax plans are altered to fit new conditions as they arise.

In addition to defense expenditures of the Government, a considerable amount of private capital will be used during the coming year in expanding plant capacity for production of defense items. It has been estimated that about one billion dollars of new plants will be needed for a major defense effort, and the amount will probably be much larger if airplane deliveries to the United Kingdom are to be increased as rapidly as possible to around 1,500 a month. Some of the funds for plant expansion will be furnished by the Government, either directly or by advances on contracts. Presumably the necessary additions to plants will be largely made within a year.

Should the war in Europe come to an end within the next month or two a substantial, if temporary, decline in business activity might result. This reaction would be due more to the effect on business sentiment of the uncertainties surrounding a new European order than to further immediate losses in export trade which would be involved. In terms of our total industrial output it is estimated that exports to the United Kingdom since the present war started have accounted for but slightly more than 1 percent. Even if an additional

allowance is made for the effect of exports of agricultural products in stimulating domestic demand, our exports to the United Kingdom may have accounted for no more than 2 percent of total industrial output. The impact of the loss of this trade would of course have more serious repercussions on some industries than on others. For instance, steel exports to the United Kingdom in June were 37 percent of total exports, or more than 4 percent of domestic steel production. The loss would be even greater for airplanes. However, our own defense needs will require substantial tonnages of steel and more airplanes than the industry is yet equipped to produce. Since Canada is at present our largest export market, her position in any European peace would have an important bearing on the export outlook for United States industrial products.

Adjustment of our economy to complete elimination for a time of exports to the United Kingdom, and the confusion which transfer of export orders to home defense orders would entail, would find some segments of industry in a somewhat vulnerable position. The extent and duration of any recession which might occur as a result would depend to a large extent on the effect of the changed conditions on business policy, particularly as regards continued maintenance of the ample inventories now in existence. Any widespread departure from this policy could lead to a fairly deep temporary reaction of productive activity. The effect on consumers' income and domestic demand for farm products probably would be much less.

Industrial production has recently been affected by low automobile production incident to earlier than usual model changes, and by ordered curtailment of petroleum production in Texas and declining output in Illinois. Domestic demand for the products of both these industries is unusually active, although exports of both have been reduced by the war in Europe. In the case of automobiles the early model changes will be followed by a resumption of volume output several weeks earlier than has been usual, a favorable factor in the outlook for early fall business.

Prominent among additional influences on the favorable side of the business picture are the substantial gains in residential and industrial building and in equipment-buying by the railroads and utilities. Airplane and machine tool factories continue to operate at capacity rates, and steel mills have sufficient orders in sight to assure high operating rates for several months. The additional plant capacity needed for our own defense program has been estimated at a billion dollars, and needs of the United Kingdom would raise this considerably. These needs are responsible in part for the recent improvement in industrial construction, but also will impart further strength to business activity as the defense and armament programs get into more complete operation. Improving consumer demand, as evidenced by expanding retail sales, is clearing the way for additional gains in the consumer goods industries.

The effect on farm products prices of recent improvement in domestic demand has been in part obscured by the offsetting influence of export losses, and for fruit and vegetables by the reversion to more normal supply conditions following effects of freezes early in the season. Recently, however, strength has appeared in livestock prices, and consumers are taking a record output of manufactured dairy products at advancing prices. Further signs of improving domestic demand should appear as effects of recent industrial expansion are more fully reflected in higher employment and payrolls among workers in service and trade.

PROSPECTIVE FOOD SUPPLIES IN CONTINENTAL EUROPE, 1940-41 *

Total food supplies in continental Europe as a whole in 1940-41 will be reduced somewhat below normal. In certain areas, particularly Belgium and some of the larger cities in the recently invaded areas, supplies will be much more restricted, owing to disrupted communications and inadequate distribution facilities. The situation in these cities will be aggravated by economic disorganization and unemployment, which will greatly reduce the purchasing power of many individual consumers. Moreover, European supplies are rather unevenly distributed as among the different foodstuffs, which will necessitate many disagreeable adjustments by consumers in their food consumption habits.

Deficits in European food supplies during the coming year will arise from three sources: (1) Decreased production due to unfavorable weather conditions in many areas of Europe and interruptions of agricultural production by war activities, including the conscription of agricultural labor; (2) the cutting off of normal channels of import trade in foodstuffs by the British blockade; and (3) increased wartime burdens on transportation facilities, and other conditions which will interfere with the normal movement of foodstuffs from one part of continental Europe to another.

Crop conditions are generally poor in Europe this year, especially in the northeastern and central areas of the Continent. The wheat and rye crops are especially deficient. The corn crop in southeastern Europe is good, and the potato crop in north and central Europe will be large. The condition of feed grains is better than that of bread grains, although the geographical distribution of feedstuff production is out of line with feed requirements.

Normally, any deficits occasioned by short crops in Europe are at least partly made up by increased imports. This year, continuation of the British blockade may prevent such imports. On the other hand, the stoppage of exports of foodstuffs from continental Europe to Great Britain will offset a part of the loss of imports. In addition, stocks of some farm products in some of the countries of Europe apparently are larger than in peace times, and the slaughter of animals due to feed shortages will bring about a temporary increase in the supply of meats.

Supplies of meats, dairy products, poultry, and sugar in continental Europe may be nearly as large as or in some cases larger than those of last year.

Increased slaughter of meat animals and poultry as a result of regional feed shortages will partly offset decreased production in some areas. In addition, exports of meats formerly moving from Denmark and other continental European countries to Great Britain will be stopped, permitting larger shipments to Germany and to other continental countries without necessitating decreases in consumption within the producing nations. This slaughter of livestock, of course, will lead to reduced supplies of meat and livestock products in 1941-42 and subsequent years, until production can be built up once more.

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* Prepared with the cooperation of the Office of Foreign Agricultural Relations. This replaces the usual statement on the export demand situation, which has changed very little during the past month.

Feed supplies in continental Europe as a whole have not been reduced as much by the German invasions and British blockade as seems to be generally supposed. The stoppage of imports apparently will reduce feed supplies in Europe by about 10 to 15 percent, although in certain countries where animal production is the principal agricultural industry, such as Denmark and the Netherlands, the reduction will represent a very much larger proportion of total requirements. Part of this shortage will be offset by the large potato crop. So far as crop production is concerned, the feed outlook is considerably more favorable than the outlook for food grains.

Shortages of feedstuffs in Denmark and the Netherlands will result in a marked reduction in the output of dairy products in those countries during the coming winter, but to offset this there will be the elimination of exports to non-continental countries. Even though domestic consumption in those countries is likely to be increased as an offset to reduction in consumption of imported foods, as during the World War, it is quite possible that exports to Germany may be even larger than they were last year. Slaughter of fowl in Europe because of feed shortages may result in no reduction, and may even cause an increase, in local poultry meat supplies. Although the slaughter of fowl in northwestern Europe will be heavy and commercial egg production will be reduced, the elimination of exports to Great Britain may leave almost normal supplies of eggs available for continental consumption.

The quantity of sugar available in continental Europe this year probably will provide for normal consumption. Stocks at the beginning of the 1939 season were unusually low, but a large crop was produced in 1939 and consumption was reduced by rationing. Consequently, a large quantity of sugar will be carried over into 1940-41, and with production about equal to that of 1938 the total supply may be about equal to the average of the last two seasons.

In contrast with the situation for the foregoing commodities, it is expected that shortages of wheat, fats, and fruits will prevail in continental Europe in 1940-41. Nevertheless, these shortages may not be extremely severe.

Wheat supplies in continental Europe in 1940-41 will be reduced as a result of both a short crop and a reduction of imports. A total deficit of between 100 and 150 million bushels, after allowing for a minimum carry-over in June 1941, is indicated by present crop prospects and available information on stocks. This shortage, amounting to 5 to 10 percent of usual wheat consumption in continental Europe, will be offset partly by a good potato crop and a good corn crop in southern Europe, and possibly by a greater reduction in German stocks than has been assumed in making this estimate.

In continental Europe the consumption of fats and oils normally is about twice the volume of production. No information is available concerning stocks of fats and oils on the Continent, but despite large supplies probably accumulated before the war broke out it is not likely that supplies at present are above average. With reduced imports, supplies of many fats and oils will be much less than usual, probably about 25 percent below normal.

Fragmentary reports indicate that the 1940 fruit crop of Europe will be substantially smaller than the unusually large one harvested in 1939, but

that there will be a large vegetable crop. The vegetable acreage is reported to have been increased 25 percent in Germany. The European potato crop, an important source of food and a substitute for wheat in northern Europe, appears to be at least normal. The most serious shortages of vegetables will be in the recently invaded areas; it is impossible under present conditions to move supplies of bulky fruits and vegetables from one area to another.

Taking into account all of the foregoing conditions, it appears that European consumers as a whole will find themselves in a somewhat uncomfortable position with respect to food supplies during the coming year, but by tightening their belts and making some changes in their food consumption habits they should be able in most sections to get through the winter. The situation in some regions and among some groups of consumers, however, will be quite serious because of difficulties in adjusting supplies to requirements in different parts of Europe.

WHOLESALE COMMODITY PRICES

Wholesale commodity prices in general have declined during the past month, a downward drift being noticeable in movements of both the weekly and daily indexes of the Bureau of Labor Statistics. According to the daily index which recently dropped to the lowest point since last August, nearly 80 percent of the advance in prices which followed the outbreak of war in Europe has been lost. The weekly index has lost about half of the September 1939 advance.

Farm product prices are under the opposing influence of virtual elimination of export markets on the one hand and effects of improving domestic demand on the other. An additional factor of support to farm product prices is the proximity of Government loan values on some products to the prices farmers are receiving for them. In fact, wheat prices have been below loan values recently. Prices of the principal farm commodities which are exported have already been adjusted, at least in large part, to the loss of continental European markets.

Non-agricultural product prices in general have not responded to the improvement since April in industrial activity and industrial workers' income. However, the Bureau of Labor Statistics index of all commodity prices, exclusive of farm and food products, stopped declining early in June, and since then advances in certain groups, notably building materials and chemicals, have offset declines in other groups, particularly hides and leather.

Except for the possibility of inventory liquidation which might follow an early end to the European conflict there appears little likelihood of any material general weakness in wholesale commodity prices over the next few months. The best prospects for price advances are for those farm products which are largely consumed domestically and for non-farm commodities for which domestic defense needs, added to expanding requirements for normal uses, may eventually tax producing facilities or result in higher costs.

PRICES RECEIVED AND PAID BY FARMERS

With farm product prices under the adverse influence of the loss of a considerable portion of export markets on the one hand, and the stimulating

effects of improving domestic consumer demand on the other, the index of prices received by farmers remained about the same in August as in July, according to preliminary indications based on price changes in wholesale markets.

Price advances in August were especially marked in dairy products, eggs, and citrus fruits. Except for dairy products these gains were largely seasonal, but all of these products are sensitive to changes in domestic consumer demand, which is improving. Substantial seasonal declines in prices of potatoes and apples were noticeable in August and smaller losses were recorded in grain and cotton prices. Meat animal prices were moderately lower in August, following the substantial advance in July.

The general index of prices received by farmers in July was 95 percent of the 1910-14 average, the same as in June. The index was 89 in July 1939; it receded another point the following month, but rose sharply to 98 in September following the outbreak of war in Europe. The ratio of prices received to prices paid by farmers in July of this year was 78 percent of the 1910-14 average -- one point above June and four points above July 1939.

FARM INCOME

Cash income from farm marketings increased more than usual from June to July because of the increase in the price of meat animals and dairy products, and the sharp increase in the movement of wheat. Income from fruits, vegetables, meat animals, and dairy products were all higher than a year earlier, and income from grains was about equal to that of July 1939. Government payments in July were slightly higher than in June and about the same as in July last year.

While the relatively light movement of livestock to market in recent weeks and the falling off in the production of dairy products, due to the drought, may have some influence on farm income in August, it is expected that cash income from farm marketings will make about the usual seasonal change from July to August and in August will be somewhat higher than a year earlier.

Last year, farm income increased sharply from August to September and remained relatively high during the remainder of the year because of the marked advance in prices of farm products following the outbreak of the war. Farm prices are now slightly lower than in the last 4 months of 1939, and marketings of farm products from September to December this year may be slightly smaller than a year ago because of the smaller crops of cotton, tobacco and fruits, and the sharp reduction in poultry production this year. However, with some further improvement in the demand for farm products in prospect for the remainder of 1940 it is probable that farm income during the last 4 months of the year will not be greatly different from that of the same period in 1939. Government payments to farmers are expected to increase from August to December, but during that period they may be slightly smaller than in the same months of 1939.

COTTON

Domestic cotton prices declined slightly during the past month. This was perhaps due in part to the approaching increase in stocks of "free"

American cotton as the new crop begins to move in volume. The recent declines in mill consumption in Great Britain, Japan, and China, the most important markets now open to American cotton, may also have been a factor in the price decline.

Domestic prices of spot cotton declined approximately 2/5 cent from mid-July to mid-August. This, in addition to a slight decline during the preceding month, resulted in a net loss of approximately 3/4 cent from the high point of June. The 10-market average for Middling 15/16" of 10.01 cents on August 14, however, was still about 4/5 cent higher than a year earlier.

The consumption of 598,000 bales of cotton by domestic mills in July (as reported by the Bureau of the Census) indicates that mill activities adjusted for seasonal variations averaged slightly higher in July than in June or than in July last year. The 7-3/4 million bales consumed during the 12 months ended July was about 1/8 larger than in the preceding season, and 1/5 larger than the preceding 5-year average. It was second only to the record high consumption of 7,950,000 bales in 1936-37. Consumption in 1940-41 is expected to exceed that of the past season even though manufacturers' sales of cotton goods in recent weeks appear to have been somewhat less than had been expected.

Cotton mill consumption and stocks of raw cotton in continental Europe undoubtedly continue relatively low. In Great Britain mill consumption appears to have declined somewhat in recent weeks but was still exceptionally large. Recent declines in Japan and China have reduced cotton mill consumption in the Orient to a level much below average despite a near record high consumption in India.

A 1940 domestic crop of 11,429,000 bales was recently forecast by the Crop Reporting Board. Such a crop would be 388,000 bales (3.3 percent) less than the 1939 crop and 2,118,000 bales (15.6 percent) smaller than the 10-year (1929-38) average. While ginnings up to August 1 were unusually small, for the month of August they should exceed domestic consumption and exports, and thus bring about some increase in the domestic stocks of "free" cotton.

Government loan rates on the 1940 crops were recently announced, with rates for Middling 15/16" on a net weight basis ranging from a high of 9.90 cents in the Carolina mill areas to 9.16 cents in West Texas and New Mexico. These were about in line with trade expectations. The rates on a gross weight basis are 0.40 cents less, or 9.50 to 8.76 cents. Compared with last year's minimum loan of 8.30 cents for Middling 7/8" on a gross weight basis the minimum this year will be 8.51 cents.

WHEAT

The price decline toward the new crop basis appears to be about complete, with domestic prices slightly lower than a month ago. Prices continue slightly higher than a year ago and considerably higher than export parity. The average of all classes and grades for the week ended August 10 at 73 cents was about 1 cent below the average for the week ended July 13 and about 2 cents

above the average for the week ended August 12, 1939. Computed on the basis of export price values, the export indemnity which would be required to export wheat to Europe is now about 28 cents per bushel from the Pacific Coast and about 20 cents from the Gulf compared with about 35 and 25 cents, respectively, a year ago.

With the turn of events in Europe in May, wheat prices in the United States became largely independent of the European situation. The dominant price influence is now the loan program. A large proportion of receipts at markets has been placed in storage. This has reduced the quantity of wheat which is available at prices materially below loan values. At present, current cash prices are about 5 cents below such values.

The estimate of the domestic wheat crop was raised 32 million bushels and that of the carry-over 4 million bushels compared with a month ago. The crop is now indicated to be about 761 million bushels and the carry-over 284 million bushels. The total wheat supply in 1940-41, accordingly, is expected to be about 1,045 million bushels. With a domestic disappearance of about 700 million bushels, this would result in about 345 million bushels being available for export in 1940-41 or for carry-over on July 1, 1941. Export prospects for 1940-41 are very uncertain. In 1939-40 they were about 45 million bushels.

World wheat supplies, excluding Soviet Russia and China, for the year beginning July 1, 1940 may be 100 to 200 million bushels smaller than a year earlier, when they totaled about 5,460 million bushels. Information on which to base an estimate of supplies is scantier than usual this year, but it appears that the carry-over on July 1, 1940 was about 200 million bushels larger than the 1,175 million bushel carry-over on July 1, 1939, and the 1940 world crop may be reduced by between 300 and 400 million bushels from the estimated 1939 crop of 4,270 million bushels.

CORN AND OTHER FEED GRAINS

Hot, dry weather over much of the Corn Belt during July reduced prospects for the 1940 corn crop by 167 million bushels. On the other hand, prospects for the oats crop improved by about 90 million bushels, while prospects for the barley crop were practically unchanged.

The total feed grain supply, including stocks of oats on July 1, stocks of barley on June 1, and prospective stocks of corn on October 1, plus production of the four feed grains, is now expected to approximate 113 million tons, compared with 118 million tons last year. Taking into consideration the prospective 4 percent decline in the number of grain consuming animal units, the supply per animal will be about the same as that of last year and substantially larger than the average supply during the period 1928-32. The supply of feed grains, excluding the probable quantity of corn that will be sealed or held by the Government on October 1, is expected to approximate 100 million tons. After allowance for the decline in grain consuming animal units, this would be about 6 percent below the corresponding supply per animal last year and slightly below the 1928-32 average supply per animal.

From mid-July to early August, prices of corn and barley were practically unchanged while the price of oats declined slightly. For the week ended August 10 the price of No. 2 Yellow corn, Chicago, was about 65 cents per bushel, or about 20 cents per bushel higher than a year ago. During this same week oats and barley prices averaged only slightly higher than for the corresponding week in 1939. Low oats and barley prices relative to corn prices this year are due in part to larger supplies of these crops than in 1939, and in part to increased participation in the corn loan program, which is giving somewhat more support to corn prices this year. During the next few months feed grain prices will be influenced primarily by changes in the prospects for the 1940 corn crop and by changes in the European war situation.

In accordance with the Agricultural Adjustment Act of 1938, a marketing quota will be necessary on the 1940 corn crop, if the total supply on October 1 is more than 10 percent above the normal supply. It now appears that the October 1 supply this year may approximate 2,900 million bushels. This supply would be more than 100 million bushels below the level at which a marketing quota would have been necessary last year. On the basis of present production prospects, if the price of corn on November 15 is below 75 percent of the parity a loan rate will be available to eligible producers at 75 percent of parity. Parity price of corn on July 15 was 81.5 cents per bushel, and 75 percent of parity would be about 61 cents per bushel.

It is estimated that about 15 million bushels of the 25 million bushels of corn sold under the export subsidy program early in May had been shipped out of the United States by August 1. The remaining 10 million bushels is expected to be exported by October 1.

HOGS

Hog marketings will increase seasonally during the next few months. Although supplies for 1940-41 marketing year, which begins October 1, are expected to be materially smaller than those of 1939-40, most of this decrease may occur after December. Drought over most of the Corn Belt, resulting in reduced corn production this year, probably will cause many farmers to market spring pigs early. The seasonal increase in marketings in the coming fall and early winter, however, is not expected to be any larger than that of a year earlier, and a large seasonal reduction in marketings seems probable during the late winter and early spring. As corn crop prospects have deteriorated greatly in the past 2 months, it is likely that the decrease in the number of sows to farrow in the fall of 1940 will be at least as large as the 12 percent indicated in the June 1, 1940 pig crop report.

Prices of hogs have held most of the sharp advance of late June and early July. The average price of butcher hogs at Chicago was about $6.40 for the week ended August 10, compared with $6.55 for the week ended July 13 and $5.05 for the low week of June. For the first time in several months, hog prices are now higher than a year earlier. Last year hog prices declined sharply during July and early August.

The weekly rate of hog marketings has been reduced about 40 percent since late June. Slaughter of hogs at 27 leading centers was smaller than

a year earlier during the last week of July and the first week of August. In nearly all other weeks this year slaughter has exceeded that of a year earlier by a substantial margin. For the entire month of July inspected hog slughter totaled 3,219,000 head, 17 percent less than in June, but 16 percent greater than in July last year.

Little or no improvement in the export demand for pork and lard is expected in the 1940-41 marketing year. Domestic consumer demand for meats, however, probably will be stronger than in 1939-40. This improvement in demand along with the probable smaller hog marketings should result in a higher average price for hogs in 1940-41 than in 1939-40.

CATTLE

The number of cattle on feed in the Corn Belt States on August 1 this year was 3 percent smaller than a year earlier. Although marketings of grain fed cattle are expected to continue relatively large in the next few months, the small decrease in number of cattle on feed on August 1 may be a forerunner of larger decreases this fall and winter. Returns from cattle feeding have been unfavorable this year, reflecting relatively high prices for both feeder cattle and corn. Poor corn crop prospects over much of the Corn Belt also are tending to restrict cattle feeding.

Prices of nearly all classes and grades of cattle declined during July, with the most pronounced weakness in prices of the lower grades of slaughter cattle. Prices of the better grades of slaughter cattle and of stocker and feeder cattle dropped only moderately during the month, and advanced in early August. Ordinarily, prices of the better grades advance after early summer, while prices of lower grades decline.

For the week ended August 10, the average price of choice and prime slaughter steers at Chicago was $11.20 compared with $11.15 a month earlier. The weekly average price of common grade steers at Chicago in early August was $7.00 compared with $8.05 in early July. Prices of the better grades of steers in early August were higher than a year earlier, while prices of the lower grades of steers and of cows were about the same or slightly lower. Prices of feeder cattle in early August were a little higher than a year earlier.

Marketings of cattle for slaughter increased during the first half of July, but fell off sharply in late July and early August. For the entire month of July inspected slaughter of cattle was 822,000 head, about 84,000 more than in June and about 40,000 more than in July 1939. Inspected calf slaughter in July was about 10 percent larger than that of a year earlier.

Present indications are that the number of cattle and calves on farms and ranches on January 1, 1941 will exceed that of a year earlier by about 2 million head. This will be the third successive year of increasing numbers. From early 1934 to early 1938 cattle numbers were reduced by about 8 million head, but by the end of this year more than half of the 1934-38 decrease will have been recovered. Total slaughter of cattle and calves in 1940 probably will be slightly larger than in 1939. In view of the large increase in the number of cattle on farms since early 1938, an upward trend in numbers of cattle and calves marketed for slaughter seems probable for the next few years.

LAMBS

Marketings of lambs for slaughter during the remainder of 1940 may be larger than a year earlier. The 1940 lamb crop, totaling 32.7 million head, was 3 percent larger than that of 1939 and was the largest on record. Most of the increase in crop over last year was in Texas. The smaller feed supplies in the Corn Belt and the poor feed crops in the western Nebraska and Colorado lamb feeding areas may result in some reduction in the number of lambs fed this fall and winter compared with a year earlier.

Because of the short corn crop in some areas of the Corn Belt and poor feed crops in Colorado, the number of lambs fed this fall and winter may be smaller than a year earlier. Changes in feed supplies, however, are not always a good indication of the change in the number of lambs fed.

Prices of lambs declined sharply during July, but recovered moderately in early August. For the week ended June 29, the average price of good and choice slaughter lambs at Chicago was $10.85, for the week ended August 3 it was about $8.50, and for the week ended August 10 it was $9.25. Extremely high temperatures in important lamb-consuming areas and a seasonal increase in marketings were important factors in this decline.

Inspected slaughter of sheep and lambs in July totaled 1,448,000 head, 5 percent more than in June and 3 percent more than in July last year.

Weather and feed conditions in all of the western sheep States were generally favorable up to July 1 this year. During most of July, however, temperatures have been high and rainfall short over most of the western sheep area.

WOOL

Wool sales at Boston were relatively small in July and the early part of August; prices weakened slightly, but the June advance in prices which had accompanied increased mill buying of wool to fill Government contracts was not entirely lost. As a result of the defense program and improvement in consumer incomes in this country, the outlook for domestic mill consumption of wool continues favorable; but favorable factors in the domestic situation are largely offset at present by uncertainty as to future developments in the foreign wool situation.

The quantity of wool shorn, or to be shorn, in the United States in 1940 is estimated by the Agricultural Marketing Service at 389 million pounds, grease basis. This estimated production for 1940 is 11 million pounds (3 percent) larger than the quantity shorn in 1939 and is the largest production on record. The estimate does not include wool pulled from slaughtered sheep and lambs, which has averaged 65 million pounds annually in recent years.

Stocks of apparel wool held by United States dealers and manufacturers on June 29 totaled 259 million pounds, grease basis. Such stocks were about 3 million pounds larger than a year earlier but were considerably smaller than the average end-of-June stocks in the years 1935-38. This total does

not include stocks held on farms and ranches in producing States, which are fairly large at this time of year. Supplies in the United States on July 1, in all positions, probably totaled about 545 million pounds, greasy basis. The total supply as of July 1 probably was about equal to average July 1 supplies in the 5 years 1935-39.

United States imports of apparel wool for consumption totaled 98 million pounds in the first half of this year. The January-June imports were much larger than imports for the same months of any recent year, except 1937, when 121 million pounds were imported. Receipts of foreign apparel wool at principal United States ports in June, totaling about 3 million pounds, were the smallest since late 1938.

Mill consumption of apparel wool in the United States continued to increase in June. The June rate of consumption was 14 percent higher than in May but 19 percent lower than in June 1939. Consumption on a scoured basis in the first half of this year was 9 percent smaller than in the same months last year.

Supplies of wool available for export from Argentina and Uruguay on July 1 are estimated at 90-100 million pounds, or about the same as a year earlier. The new clip in these countries will be available about October 1. The British blockade of most of the European Continent has limited sales of wool in South America largely to United States buyers.

BUTTER

Production of creamery butter in June established a new high, about 2 percent higher than in June 1939. With the hot, dry weather in the North Central States during July, however, production has fallen off sharply and in early August was somewhat less than a year earlier. This decline in production was an important factor in strengthening prices.

Prices of 92-score butter at New York and 90-score centralizer at Chicago in early August both averaged about 1 cent higher than the low during the summer. Ordinarily the seasonal rise in prices does not start until late August or September. Prospects are for a seasonal rise in prices during the remainder of the year. Prices received by producers for butterfat and whole milk during the last half of 1940 will probably average higher than in the same period of 1939.

Apparent consumption of butter in June was about 3 percent less than in June 1939. The distribution of butter for relief, however, was down about 12 million pounds while the purchases of butter with blue stamps under the Stamp Plan amounted to about 1,600,000 pounds. Trade output through regular trade channels was nearly 5 percent larger than a year earlier. Retail prices were about 10 percent higher.

On July 1 the Stamp Plan was in effect in about 123 cities. The purchases of butter with blue stamps were about 1 percent of the total trade output in June.

Cold storage stocks of creamery butter on August 1 were the smallest for that date since the drought year 1936, and were below the pre-depression average. The relatively small stocks and the prospects for fairly high level of business activity are the principal reasons for expecting higher prices for butterfat and whole milk during the remainder of the year as compared with a year earlier.

POULTRY AND EGGS

Slightly smaller supplies of eggs in the United States are indicated for the last half of 1940 as compared with the last half of 1939. Supplies of chicken meat (including fowl) may be about 5 percent smaller. These smaller supplies will be largely the result of the smaller hatch this year than last.

The larger than usual into-storage movement during June and July for both shell and frozen eggs, made possible by unusually heavy egg production in those months, more than made up for the delayed into-storage movement at the beginning of the season. Total stocks of eggs, including Government holdings, in the United States on August 1 were about 9 percent larger than on the same date in 1939, although private holdings were slightly smaller.

The average price received by farmers for eggs in mid-July was 16.4 cents compared with 14.4 cents a month earlier and 16.5 cents in July 1939. With smaller production and larger consumer incomes than a year earlier indicated for the remainder of 1940, egg prices may rise during coming months relative to last year's prices.

The smaller marketings of poultry which are indicated for the remainder of 1940 will tend to offset some of the depressing effects of the present larger total storage stocks of poultry. Smaller supplies of chickens, higher consumer incomes, and the apparent generally favorable chicken storage deal of the past season will tend to bring about higher chicken prices in the last half of this year compared with the last 6 months of 1939. However, the effects on turkey prices of the higher level of consumer incomes and probable smaller turkey production this year compared with last will tend to be offset by the present abnormally large storage stocks of dressed turkeys and by the unprofitableness of last season's turkey storage operations.

The seasonal increase in the price of eggs will tend to bring about some reduction in the number of eggs required to buy 100 pounds of poultry feed, but the feed egg ratio during the remainder of 1940 is likely to remain less favorable to poultry producers than the 10-year average.

OILSEEDS, FATS, AND OILS

Prices of most fats and oils showed little change in July, although flaxseed and cottonseed prices declined as new-crop marketings got under way. Prices generally, with the exception of tallow and greases, were equal to or higher than the relatively low prices that prevailed in July 1939.

A large surplus of flaxseed is available in the Western Hemisphere. The domestic flaxseed crop this year is indicated to be about 45 percent larger than in 1939, and the largest since 1924. Export prospects for Argentina, which normally ships large quantities of flaxseed to the United States and Europe, are distinctly unfavorable. However, the demand for flaxseed products in the United States has shown considerable strength in recent months, and flaxseed prices were about the same in July this year as last.

Domestic cottonseed production for the 1940-41 season is indicated to be slightly smaller than that for 1939-40, and considerablely below average. The price of cottonseed at Dallas in July averaged more than $2.50 per ton higher than a year earlier. A record peanut crop is in prospect. If weather conditions continue favorable, a much larger quantity of peanuts is likely to be available for crushing in the new season than in the 1939-40 marketing year.

Factory production of fats and oils was 11 percent larger in the first 6 months of 1940 than a year earlier, and apparently was the largest for the first half of the year on record. Increased output of lard, tallow, greases, and soybean oil accounted for most of the increase in production. Imports of fats and oils for the first half of 1940 were smaller, whereas exports were larger, than a year earlier. Stocks of fats and oils on June 30 were unusually large.

Improvement in industrial activity in the United States in 1940-41, resulting in part from increased defense expenditures, will be a factor tending to strengthen the demand and prices for domestic fats and oils. On the other hand, large supplies of most fats are available in the United States and other primary-producing countries. And prices are not likely to show any major gains unless continental European markets are reopened to world trade.

RICE

The condition of the rice crop on August 1, together with stocks of rice on hand, indicated a total 1940-41 United States supply of rice a little larger than the record supply last year. A 1940 southern crop of 46.7 million bushels was indicated on that date, and a California crop of 8.4 million bushels, making the indicated total United States production 55.1 million bushels, the largest on record.

The southern supply, on the basis of the August 1 indicated production and estimated August 1 stocks, totaled about 14.7 million barrels compared with 13.7 million last year. The prospective crop in the Southern States, however, has been reduced since August 1 by the Gulf storm, which damaged the crop in Louisiana and Texas. The extent of the damage has not yet been determined, but it appears likely that it was such as to reduce the prospective southern supply to below that of last year.

In California the indicated 1940 crop was about 600,000 bushels below production last year, but the carry-over next October will probably be somewhat larger, and the total supply of California rice may exceed that of 1939-40.

Rice prices have strengthened somewhat during the past few months despite conditions indicating larger 1940 supplies. The prospective improvement in the domestic demand situation appears to be the most important factor supporting prices. The average price received by farmers on July 15 was 76 cents per bushel compared with 60 cents per bushel on that date last year. The average price received by producers in California was 62 cents per bushel while prices in the Southern States ranged from 73 to 81 cents per bushel.

Total exports and shipments of rice from continental United States in 1939-40 are estimated to have been a little larger than in 1938-39. During the period August-June 1939-40, 278 million pounds were exported compared with 293 million pounds for the corresponding period of 1938-39. The greater part of this rice has been exported to Cuba. Shipments to insular possessions totaled 313 million pounds for the period August-June of 1939-40, as compared with 262 million pounds for the same period a year earlier.

FRUITS

Market prices of most fruits declined seasonally during recent weeks, but because of slightly smaller supplies prices in early August averaged slightly higher than a year earlier.

Production prospects for the important deciduous fruits are about 12 percent smaller than in 1939 but about equal to the 10-year (1929-38) average. Citrus fruits give promise of a relatively large crop. The commercial production of apples (total production in 424 commercial counties of the United States) is indicated at 117 million bushels compared with 143 million bushels in 1939 and the 5-year (1934-38) average of 122 million bushels. The crop of early varieties is comparatively short this season, and July market prices averaged well above those of a year earlier.

There was little change during July in the prospect for peaches, pears, and grapes. The United States peach crop is smaller than that of last year but about average; the pear crop is about the same as that of last year but nearly one-fifth larger than average. Grape production is indicated to be down from 1939 but considerably above average. Total production of plums and prunes for all purposes and of cherries is indicated to be about 10 percent below that of a year earlier.

Although the total output of all these fruits is expected to be below that of 1939, the supply that probably will be available for the domestic market is likely to be as large as in 1939, or larger. Export prospects for all types of fruits and fruit products are unfavorable, and the loss of this outlet will add to the supply expected to be available for domestic consumers. Offsetting in part this loss of foreign markets, is the prospect for some improvement in domestic consumer purchasing power over that of a year earlier. Domestic consumer buying power, as measured by the index of industrial workers' income, is now indicated to be 10 to 15 percent higher than a year ago.

TRUCK CROPS

Supplies of truck crops for immediate marketing are expected to be about the same as a year earlier, but about one-fifth larger than the 10-year (1929-38) average. Most of the early and intermediate crops have been marketed, New Jersey being the only intermediate State that has considerable quantities yet to ship.

The late Northern States have decreased production prospects from a year earlier of 15 percent for late onions, 3 percent for cantaloups and tomatoes, and 2 percent for lettuce. Most other late truck crops are expected to be in somewhat larger supply than in 1939. A large domestic cabbage crop, a part of which is usually used for kraut manufacture, is indicated in the late States. The indicated crop exceeds that of 1939 by about one-third. Also the late Danish type acreage is indicated to be 3 percent larger than a year earlier.

Marketings of vegetables are now coming largely from the Northern States with the market garden areas providing considerable quantities. The carlot movement at this season of the year is relatively small, most of the movement being by motortruck. Also prices are approaching a seasonal low for the year.

As compared with early August 1939, market prices of beets, cabbage, celery, and green peas, were somewhat lower this year, but prices of many commodities, particularly snap beans, cantaloups, carrots, cucumbers, eggplant, lettuce, onions, and tomatoes, were somewhat higher. In general it appears that the level of truck crop prices in early August was slightly higher than a year earlier, largely because of improved consumer buying power.

Larger crops than a year earlier of vegetables for processing are being harvested this season. Since the bulk of these are sold to processors at slightly higher contract prices, it is likely that the cash income received by producers will be increased considerably above that of 1939.

POTATOES

Heavy marketings of potatoes in recent weeks, occasioned by a relatively large intermediate crop, have caused prices, particularly in eastern markets, to decline to levels somewhat below those of a year earlier.

The total intermediate crop, the commercial portion of which is now being marketed, is indicated at 35.4 million bushels, compared with 27.6 million produced in 1939. Production in the commercial areas totals 19.5 million bushels, or about 4.6 million bushels more than a year earlier. As compared with 1939 the commercial crop is considerably larger in Virginia, Maryland, and New Jersey. Marketings are about completed in most of the intermediate States except New Jersey, where they are now in full swing. The carlot movement of potatoes from all areas is approaching a seasonal low, the bulk of marketings at this time of the year being moved largely by motortruck. Market supplies are originating not only from the intermediate States but from some of the late States where early maturing varieties are produced.

The total late crop is indicated at 290 million bushels, or about the same as that of last season but about 6 million bushels less than the 10-year (1929-38) average. During July crop prospects improved slightly in the 8 Eastern and 10 Central late States but declined slightly in the 12 Western States. As compared with 1939, late crop supplies are likely to be larger in the Eastern States but smaller in the western group. The supply in the central group is expected to be about the same as that of last year. As soon as the heavy marketings from the intermediate States are completed, the market situation probably will improve; and with somewhat higher consumer purchasing power in prospect for the whole of the 1940-41 marketing season, the late potato marketing season is likely to be slightly more favorable to growers than that of 1939-40.

The New Federal Reserve Index of Industrial Production

In the Federal Reserve Bulletin of August 1940 a new index of industrial production is presented. The new index provides a broader and more accurate measure of changes in industrial output (manufacturing and mining) than the old.

New industries contained in the revised index which were not given direct representation in the old constitute approximately 30 percent of the total. Several of the new series represent industries which have shown rapid growth in recent years, notably machinery, rayon, chemicals, and alcoholic beverages, and broader representation is given to the food industry. The new index also contains material revisions in a number of series which were contained in the old index, accounting for more than 14 percent of the total. Thus, the new series added and those for which material revisions have been made constitute approximately 45 percent of the total weights accorded the various industries in the new index.

As a result of the additions and revisions which have been made in compilation of the new Federal Reserve index of industrial production, it differs in two important respects from the old. (1) Long-term growth as measured by the new index is considerably larger than was indicated by the old. For instance, the new index (which is adjusted for seasonal variation as was the old) showed industrial production in July 1940 to have been 10 percent higher than the 1929 average, whereas according to the old index it was approximately 2 percent below. (2) Short-term movements in many instances are considerably less erratic as measured by the new index than they were according to the old. For instance, the sharp relapses in industrial activity in early 1939 and 1940 were only about half as severe according to the new index as they were shown to have been by the old (see cover chart).

In respect to these short-time fluctuations the new index could hardly have been presented at a more opportune time to focus attention on the difference in the two indexes. For instance, in July 1940 the new index, according to the August Federal Reserve Bulletin, remained at the June level whereas the old index advanced three points. Amplitude of the cyclical swings are not greatly different as measured by the new and old indexes.

Whereas the new index will without question measure actual fluctuations and growths in industrial production better than the old, because of inclusion of a larger representation of the advanced stages of manufacture in the new index and the addition of several important expanding industries, there is a question as to whether the new index will furnish as adequate a measure of changes in productive activity during the period of heavy armament building which is ahead as it does for the past or as it will in more normal periods in the future. Some of the important products for national defense will receive only indirect representation in the new index, unless some provision is made to include them directly. On the whole, the new index of industrial production will be a more satisfactory measure than the old for the uses made of it by the Department of Agriculture in its demand and price outlook work.

Presumably after a short period of time the more complicated procedure necessitated in dealing with certain groups of industries contained in the new index will not result in any substantial delay in month to month computations of it. The Federal Reserve fully realizes the need for prompt release of economic data and has made efforts to advance the release date of the monthly bulletin. Furthermore, in a discussion of general indexes of business activity which appeared in the June 1940 Federal Reserve Bulletin attention was called to the fact that "the amount of information now available weekly is more than could be obtained on a monthly basis 30 years ago" and that "weekly indexes may well become increasingly useful."

The fact that the new index of industrial production has averaged higher thus far in 1939 than for any full year previously (117 percent of the 1935-39 base period for 7 months of 1940 as compared with 113 for the peak year 1937) whereas the old one has averaged considerably lower than at the peak in 1929 (110 on the 1923-25 base in 1940 as compared with 119 in 1929) raises the question as to whether our industrial plant is not perhaps operating nearer capacity than had formerly seemed probable. Questions of this nature are of particular interest at this time because of the demand for industrial products which will arise from the 15-billion-dollar defense program which is being started. If armament demands on industry were to necessitate smaller output of ordinary industrial goods of some kinds than could otherwise be produced and marketed, the effects of the armament program on industrial activity and employment would be lessened.

There is no definite information on aggregate industrial capacity (capacity is quite flexible in many industries), although recent rates of output in the steel industry have been close to estimated capacity and the demand for certain types of machinery and airplanes has been in excess of the ability of these industries to produce. It is of interest to note, however, that if activity in all the groups of industries entering into the computation of the index reached their highs to date simultaneously, the peak month up to

this time for the new Federal Reserve index of industrial production would have been only 133 percent of the 1935-39 base period average. Since it is seldom that several industries are not lagging materially behind the general procession, it is obvious that further gains of consequence (the new index was 121 in July) will require new peaks of output for individual industires. On the other hand, it does not follow that industrial production in general could not exceed previous peaks by a considerable margin, since peak rates of output for individual industries have not necessarily taxed capacities and in many instances capacities are probably greater now than they were when previous peaks of output were attained.

The August 1940 number of the Federal Reserve Bulletin contains detailed information concerning the industries represented in the new industrial production index, the weights assigned to them, method of adjusting activity in the various industries to a daily average basis and for seasonal variation, as well as an extended discussion and several charts comparing movements of the new index with the old.

P. H. BOLLINGER

Economic trends affecting agriculture

Index numbers: Indicated base period = 100

Year and month	Industrial production 1/	Construction contracts awarded 1/	Factory employment 2/	Factory payrolls 2/	Income of industrial workers 3/	Volume of agricultural exports 4/	Wholesale prices of all commodities 5/	Retail food prices 6/	Prices received by farmers 7/	Prices paid by farmers	Ratio of prices received to prices paid	Cash income from farm marketings 8/
Base period	1935-39	1923-25	1923-25	1923-25	1924-29	1910-14	1910-14	1913	1910-14	1910-14	1910-14	1924-29
1929	110	117	106	110	107	107	139	166	146	153	95	104
1930	91	92	92	89	88	82	126	158	126	145	87	83
1931	75	63	78	68	67	88	107	130	87	124	70	58
1932	58	28	66	47	46	94	95	108	65	107	61	44
1933	69	25	73	50	48	85	96	105	70	109	64	49
1934	75	32	86	64	61	66	109	117	90	123	73	58
1935	87	37	91	74	69	61	117	128	108	125	86	65
1936	103	55	99	86	80	55	118	130	114	124	92	76
1937	113	59	109	102	94	65	126	135	121	130	93	81
1938	88	64	90	78	73	75	115	125	95	122	78	71
1939	108	72	97	91	83	65	113	122	93	121	77	72
1939 -												
Jan.	102	86	95	87	80	61	112	123	94	120	78	76
Feb.	101	73	94	86	79	66	112	122	92	120	77	73
Mar.	101	69	94	85	79	69	112	121	91	120	76	72
Apr.	97	67	94	84	75	55	111	121	89	120	74	68
May	97	63	93	84	75	62	111	121	90	120	75	70
June	102	63	94	86	80	46	110	121	89	120	74	64
July	104	67	95	87	80	51	110	121	89	120	74	63
Aug.	104	73	96	90	83	63	109	119	88	119	74	66
Sept.	113	73	98	93	86	81	115	125	98	122	80	74
Oct.	121	76	101	100	91	82	116	124	97	122	80	76
Nov.	124	83	103	103	93	56	116	123	97	122	80	76
Dec.	126	86	105	104	93	75	116	122	96	122	79	79
1940 -												
Jan.	122	75	104	102	93	105	116	122	99	122	81	79
Feb.	116	63	102	98	89	104	115	124	101	122	83	84
Mar.	112	62	100	95	87	68	114	122	97	123	79	76
Apr.	111	64	99	95	86	61	115	124	98	123	80	82
May	114	64	99	95	87	47	114	125	98	123	80	80
June 9/	121	70	101	98	89	44	113	126	95	123	77	69
July 9/	121						113	125	95	122	78	

Continued -

Economic trends affecting agriculture -Continued

1/ Federal Reserve Board, adjusted for seasonal variation. Industrial production revised August 1940.
2/ Bureau of Labor Statistics, adjusted for seasonal variation (employment adjusted by Federal Reserve and payrolls by Bureau of Agricultural Economics).
3/ Adjusted for seasonal variation. Includes factory, railroad, and mining employees.
4/ Foreign Agricultural Relations, July 1909-June 1914 = 100, adjusted for seasonal variation.
5/ Bureau of Labor Statistics, 1926 = 100, converted to 1910-14 = 100.
6/ Bureau of Labor Statistics, 1923-25 = 100, converted to 1913 = 100. June-July 1940 estimated from the revised index, 1935-39 = 100.
7/ August 1909-July 1914 = 100.
8/ Adjusted for seasonal variation. Revised March 1940.
9/ Preliminary.

Note: In comparing trends between industrial production and industrial workers' income, as indicated by the above index numbers, notice should be taken of the different base periods used, and of the fact that income of railway workers, as well as incomes of mining and factory workers, is included in the index of industrial workers' income, whereas the industrial production index is based on mining and manufacturing only. Similar precautions are necessary in comparing trends between industrial production and factory employment and payrolls. Another consideration of importance is that the production index is based on volume, whereas the income indexes are affected by changes in wage rates as well as by time worked. In comparing monthly indexes it is important to keep in mind the fact that there is usually a time lag between changes in volume of production and similar changes in employment and in workers' income.